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BASIC RESOURCES INTERNATIONAL LIMITED

**annual
report 1971**



Cover:

Diamond drilling
on new
copper discovery
at Chiacach.



Officers

JOHN D. PARK, President

DONALD C. CAMPBELL, Vice-President, Operations

BRUCE B. CORDEN, Vice-President, Petroleum Division

D. DESMOND UTTERBACK, Ph.D., Vice-President, Exploration

B. BRUCE LOCKWOOD, Q.C., Secretary

Directors

DONALD C. CAMPBELL — Vice-President, Basic Resources International Limited,
Guatemala City, Guatemala

BRUCE B. CORDEN — President, Petrotech, Inc., St. Clair, Michigan

PETER C. GOLFFING — Executive (retired), Fort Lee, New Jersey

JEAN-LUC JAVAL — Member, Economic Council of France; Counsellor, ELF-ERAP
Petroleum Company; Banque Nationale de Paris, Paris, France

B. BRUCE LOCKWOOD, Q.C. — Partner, Blake, Cassels & Graydon, Toronto, Ontario

ENRIQUE C. NOVELLA — Executive, Cementos Novella, S.A., Guatemala City, Guatemala

JOHN D. PARK — President, Basic Resources International Limited, Toronto, Ontario

DAVID SCOTT-SMITH — Lloyds Bank (Europe), (retired), Geneva, Switzerland

Transfer agents

National Trust Company, Limited, Toronto, Ontario

Auditors

Arthur Andersen & Co., Toronto, Ontario

Solicitors

Blake, Cassels & Graydon, Toronto, Ontario

Operating subsidiaries

RECURSOS DEL NORTE LIMITADA

TRANSMETALES LIMITADA

13 Calle 7-51, Zona 9, Guatemala City, Guatemala

PETROTECH, INC.

St. Clair, Michigan 48079

Financial advisors

Banque de Paris et des Pays-Bas (Suisse) S.A.

Finabai Société Financière S.A., a wholly-owned subsidiary of Banca d'America e d'Italia
(an affiliate of the Bank of America)

BASIC RESOURCES INTERNATIONAL LIMITED

931 Yonge St., Toronto, Ontario

President's message

TO THE SHAREHOLDERS:

Your company has made considerable progress during the past year. The four most important developments are:

- the success of our exploration program in Guatemala, Central America;
- the acquisition of a majority controlling position in Petrotech, Inc., Michigan, U.S.A.;
- the successful financing of the company's activities which will assure its growth, and
- the diversification of the activities into other areas of the world where there is great potential for development.

The population of the world is rapidly expanding at the same time that the known reserves of both petroleum and mineral resources are declining. The lesser developed nations are increasing their consumption of these resources as their standard of living more nearly approaches that of Europe and North America. It has been predicted that, by the turn of the century, the demand for non-ferrous metals and petroleum will increase many fold.

The requirements for the successful exploration for these resources are becoming more sophisticated and at the same time more expensive. The capital cost of installing ore processing facilities has continued to rise and, with the rare exception of a high grade copper deposit such as your company owns at Oxec, most new facilities have huge and costly processing plants using low grade ore or are located in areas that ten years ago would have been considered uneconomical.

Relatively short term swings in the price levels for non-ferrous metals will continue to occur. These price changes are more a reflection of the inadequate facilities for making a stable market than of the fluctuation in demand for the metals. A relatively small increase or decrease in demand for a metal can cause a rapid change in inventory on the London Metal Exchange, resulting in wide price swings. Until better marketing procedures are adopted, these price fluctuations will continue but at successively higher levels as demand increases and production cost continues to climb.

It is the opinion of your management that the prospects of demand for minerals and petroleum are excellent and the company intends to devote a considerable portion of its activities to the finding and exploration of new resources on a worldwide scale. At the same time, we shall continue to develop the very valuable deposits which have been discovered by us over the past two years.

COPPER

The company discovered a high grade copper deposit at Oxec, Guatemala, C.A. The design of a 1,000 tons per day plant and the construction of the infrastructure (roads, camp site) are well underway. The plant construction should begin in January, 1972, with a start-up of production within approximately one year.

Independent consulting engineers have prepared detailed forecasts of operating costs which indicate that the break-even point (for cash flow purposes) would be approximately 25¢/lb. of copper, whereas most new mines now being placed into production have a break-even point of approximately 35¢/lb. The total investment is estimated at \$5 million. If, for the purpose of making a cash flow projection, we assume a copper price of 50¢/lb. (the lowest yearly average price for the past five years), the cash flow from this mine should be approximately \$5,000,000 per year, after start-up.

Another interesting copper prospect has been discovered approximately six miles from the Oxec property and within the company's concession. Surface geology, geochemical, and geophysical surveys have been completed on an area where a number of surface outcrops of copper mineralization occur. A drilling program is now underway to evaluate this property.

NICKEL

Continued exploration during the past year has developed a deposit of slightly more than 60 million tons of lateritic nickel ore. Work is continuing and several new promising areas are now under investigation. In the meantime, your company has obtained an option on a second lateritic nickel deposit from International Mineral Engineers, Inc. whose concession is nearby. These two properties combined have reserves at the present time of approximately 100 million tons of nickel ore.

An agreement in principle has been reached with a major international mining company, experienced



Drilling for gas in Michigan (U.S.A.) by Petrotech.



Dr. Javal from Banque Nationale de Paris and Dr. Ciocchetti from Banca d'America e d'Italia inspecting gas flare from well drilled on Tortugas Salt Dome.

in nickel, on co-operation in the development of the ore reserves and feasibility studies regarding the construction of a nickel smelter in Guatemala, C.A. Your company's nickel concession is adjacent to that of the International Nickel Company, which has announced an agreement with the Government of Guatemala as to the construction of a \$220 million lateritic nickel smelter.

PETROLEUM

In Guatemala, your company has beneficial rights to a petroleum concession of approximately 933,000 acres. Our exploration activities have proven the existence of a large salt basin with numerous piercement-type salt domes. DeGolyer and MacNaughton, a firm of respected consultants, in reporting on the petroleum concessions, has stated that there are thick sedimentary sections and large structures. Shallow wells drilled under a sulphur exploration program all had strong live oil shows and several of the wells would have been capable of production.

Approximately one-third of the concession area is being explored in a joint venture with the Monsanto Company, whereby Monsanto pays the cost of exploration until the recoverable petroleum reserve reaches 50,000,000 barrels. From then on, the company and Monsanto will share equally in expenses and production.

Monsanto has completed a five-well shallow coring program and has performed a seismic survey of approximately 90 miles. This information is now being correlated with the surface geology and data previously obtained from a sulphur drilling program.

A shallow well drilled by Monsanto on the flank of the Tortugas salt dome flowed oil at several hundred barrels per day. This well was capped. Five thousand acres surrounding and including this well to a depth of 6000' have been reserved for the company. A drill rig with a capacity of 10,000 feet has been purchased and a drill site is being prepared adjacent to the site where oil was originally discovered.

The company is in negotiations regarding joint ventures on other portions of the petroleum concession. It is presently negotiating the formation of an investor partnership, consisting of Basic Resources as the general partner and a number of limited partners, principally Europeans, in a three-year, \$30 million oil exploration program of which one-third would be spent in Guatemala on the company's petroleum concession in a new joint venture with Monsanto, one-third in the United States on petroleum leases owned by Petrotech, Inc. (a subsidiary company) in joint ventures with major U.S. gas companies, and one-third in Canada.

An interesting departure from the usual concept in the formation of limited partnerships for exploration drilling funds is the prior arrangement which has been made in this instance to finance the cost of developing any commercial discovery, including transportation of the products to market. In the case of the Guatemalan joint venture, the investor partnership will supply the funds required for the initial exploration. Three wells are initially programmed. The development wells, gathering system, tankage and pipelines may cost up to an additional \$100 million. An agreement has been reached with Monsanto whereby upon discovery of a commercial field, it would contribute 50% of such funds to the joint venture. Monsanto will also contribute an additional 50% of such funds to the joint venture on behalf of the investor partnership to be repaid from 50% of the investor partnership's share of production. The total net production from the Guatemalan concessions will be divided one-third for the investor partnership, one-third for Monsanto and one-third for Basic Resources International Limited.

It is interesting to note that the transmission cost of gas by pipeline from Guatemala to the United States is estimated at approximately one-third the cost of transporting it from Prudhoe Bay and without encountering the ecological problems of the far north. The oil could be transported approximately 100 miles over easy pipeline routes, to either the Atlantic or Pacific coast from where it would be trans-shipped to world markets.

PETROTECH, INC.

Petrotech, Inc., in which your company acquired a 52½% equity interest, has a joint venture agreement with Michigan Consolidated Gas Co., under which Michigan Consolidated performs the exploration work at its sole expense on approximately 15,000 acres of petroleum leases in exchange for a 50% interest. Geophysical surveying to date under this agreement indicates at least five Niagaran reef anomalies on which drilling evaluations are expected to be commenced by Michigan Consolidated Gas within the near future.

Petrotech has arranged for a 71-mile seismic program to be carried out in other areas of its leases where previous exploration work, including gravity surveys, indicated the likelihood of large reef structures.

A special report, which appeared recently in the weekly publication "Petroleum Information", states that Michigan (where Petrotech holds its leases) is fast becoming a major exploration play. The presence of productive Niagaran reefs in widespread areas, the development of seismic methods that

have apparently solved the problems of glacial drift and high discovery rates have caused operators from all parts of the United States, majors and independents, to look to Michigan. Your company feels that Petrotech, with its long experience and extensive lease holdings in this area, is in an ideal position to benefit from this increased activity.

RECENT DEVELOPMENTS

Your company has entered into an agreement whereby it will subscribe for 20% of the capital in a development corporation in Mauritania in partnership with the Government of Mauritania, MIFERMA, SOMICA, and a Dutch Group. The purpose of this corporation is the general economic development of Mauritania. Your company has been assured by the Minister of Economy of Mauritania that it will be awarded a large mineral concession called Sfariat-Zemmour. This concession has been the subject of a preliminary geological survey which indicated large tonnages of high grade iron ore.

This promising development is a long term project timed to meet the increasing demand for iron ore in the European market. The problem of logistics, both in the exploration and development stage and in the exploitation stage requires strong partners in both the financial and technical fields.

A separate subsidiary is being formed to handle exploration on the new concession. Of the capital in the new company, 10% is being subscribed by MIFERMA, the large European mining company owned by Compagnie du Nord (Rothschilds), Thyssen Hutte, British Steel Corporation and several of the leading European banks and steel companies. MIFERMA presently operates the Kedia d'Idjil iron mine in Mauritania which produces about nine million tons of ore per year, with an average grade of 64% iron. Your company's policy will be to take in partners to a maximum of 45% of the capital, and to retain ownership of 55% of this subsidiary.

Basic Resources has concluded a preliminary agreement with MacDonald Construction Company of St. Louis, Missouri, for the detailed investigation and evaluation of a large medium grade copper deposit in Yugoslavia. It also has an option on a gold-silver property in Indonesia. At this time, it is premature to predict the significance of these two projects.

FINANCIAL

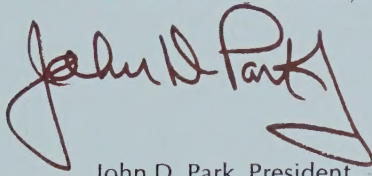
The company's financial position shows considerable improvement over the past year. The recent financing, which was arranged by Finabai Société Financière S.A., a wholly-owned subsidiary of the Banca d'America e d'Italia (an affiliate of the Bank of America), provides the funds required to continue the scheduled operation - including the

development drilling for petroleum on the Tortugas salt dome – until the company has a substantial cash flow from the Oxec copper property now being placed into production.

In addition, Basic Resources will have approximately \$2.5 million cash in reserve for use in combination with authorized but unissued common and preferred shares of the company, for acquisitions of income producing properties in areas of the world where we are not presently operating. These acquisitions will be made with the guidance and assistance of Finabai and Banque de Paris et des Pays-Bas (Suisse) S.A., our investment advisors.

Respectfully submitted,

On behalf of the board,



Toronto, Ontario
December 8, 1971

John D. Park, President.

Drilling for copper at Oxec –
Guatemala, C.A.



Exploration head frame
for Oxec copper deposit.

Core drilling – Petroleum exploration
Tortugas Salt Dome – Guatemala, C.A.



Dr. Christian Weyer, Banque de Paris
et des Pays-Bas (Suisse) (right) and
Mr. J. Park, President of Basic
Resources on an inspection trip of
Tortugas Salt Dome drilling operation.



auditors' report

To the Shareholders of

BASIC RESOURCES INTERNATIONAL LIMITED:

We have examined the consolidated balance sheet of BASIC RESOURCES INTERNATIONAL LIMITED (an Ontario corporation) AND SUBSIDIARIES as of June 30, 1971, and the consolidated statement of source and application of funds for the year then ended. Our examination of the financial statements of the Company included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of other auditors who have examined the financial statements of the subsidiaries.

As set forth in Notes 2 and 3 to the consolidated financial statements, the Company and its subsidiaries have incurred mineral and petroleum exploration costs of \$6,885,431 (including the investment in Petrotech, Inc.) and the recovery of these costs is dependent on the success of future development of the concessions and leases held by the companies and Petrotech, Inc.

In our opinion, subject to the recovery of exploration costs referred to in the preceding paragraph, the accompanying consolidated financial statements present fairly the financial position of Basic Resources International Limited and its subsidiaries as of June 30, 1971, and source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

August 16, 1971

(except with respect to the matters
discussed in Note 12 as to which
the date is October 6, 1971)
Toronto, Ontario

ARTHUR ANDERSEN & CO.
Chartered Accountants

BASIC RESOURCES INTERNATIONAL LIMITED AND SUBSIDIARIES

consolidated balance sheet – June 30, 1971

(with comparative figures for the prior year)

(stated in U.S. Dollars)

ASSETS

	<u>1971</u>	<u>1970</u>
Current Assets:		
Cash and working funds	\$2,004,090	\$ 6,591
Amount due on debentures	588,000	—
Accounts receivable –		
Advances to employees	1,253	185
Other	1,438	4,033
6% Note receivable, due February 13, 1972 (Note 5)	102,476	—
Total current assets	<u>\$2,697,257</u>	<u>\$ 10,809</u>
Office and Sundry Equipment, at cost	\$ 48,529	\$ 48,860
Less – Accumulated depreciation	17,724	8,908
	<u>\$ 30,805</u>	<u>\$ 39,952</u>
Land, at cost	\$ —	\$ 3,000
Investment in Petrotech, Inc., at cost (Note 2)	<u>\$ 826,319</u>	<u>\$ —</u>
Deferred Exploration Costs (Note 3)	\$6,634,112	\$4,567,042
Less – Participation by others (Note 4)	575,000	—
	<u>\$6,059,112</u>	<u>\$4,567,042</u>
	<u><u>\$9,613,493</u></u>	<u><u>\$4,620,803</u></u>

LIABILITIES

	1971	1970
Current Liabilities:		
Other than shareholders –		
Bank loan (Note 5)	\$ 122,500	\$ 23,455
Notes payable	53,448	78,181
Accounts payable and accrued liabilities	716,911	605,776
Interest accrued on debentures	5,679	—
	<u>\$ 898,538</u>	<u>\$ 707,412</u>
Shareholders –		
Notes payable (Note 6)	\$ 600,000	\$1,104,343
Accounts payable	285,933	125,657
	<u>\$ 885,933</u>	<u>\$1,230,000</u>
Total current liabilities	<u>\$1,784,471</u>	<u>\$1,937,412</u>
Deferred Liabilities:		
Shareholder's and associated companies' advances	\$ —	\$ 668,338
Advances repayable from future proceeds (Note 7)	295,000	295,000
Other	31,437	36,523
	<u>\$ 326,437</u>	<u>\$ 999,861</u>
Sinking Fund Debentures, due May 4, 1976 (Note 8)	<u>\$3,000,000</u>	<u>\$ —</u>
Deferred Credit (Note 4)	<u>\$ —</u>	<u>\$ 575,000</u>
Capital Stock (Note 9)	<u>\$3,827,585</u>	<u>\$ 433,530</u>
Contributed Surplus (Note 4)	<u>\$ 675,000</u>	<u>\$ 675,000</u>
Contingencies (Note 10)	<u>\$9,613,493</u>	<u>\$4,620,803</u>

The accompanying notes to consolidated financial statements are an integral part of this balance sheet.

Approved on behalf of the Board:

D. C. CAMPBELL
Director

B. B. LOCKWOOD
Director

BASIC RESOURCES INTERNATIONAL LIMITED AND SUBSIDIARIES

consolidated statement of Source and Application of Funds

For the Year Ended June 30, 1971
(stated in U.S. Dollars)

Source of Funds:

Sale of sinking fund debentures	\$3,000,000
Issue of capital stock	3,394,055
Disposal of land and sundry equipment	3,331
	<u>\$6,397,386</u>

Application of Funds:

Deferred exploration costs (net of provision for depreciation – \$8,816)	\$2,058,254
Investment in Petrotech, Inc.	826,319
Settlement of advances from shareholder and associated companies by issue of shares	668,338
Reduction of other deferred liabilities	5,086
	<u>\$3,557,997</u>

Increase in working capital during the year

	\$2,839,389
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Working Capital at June 30, 1970 (deficiency)

	<u>(1,926,603)</u>
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Working Capital at June 30, 1971

	<u>\$ 912,786</u>
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The Company did not prepare consolidated financial statements as of June 30, 1969, and accordingly the above statement is not presented in comparative form.

notes to consolidated financial statements

1. Basis of Consolidation and Related Information

The accompanying consolidated financial statements include the accounts of Basic Resources International Limited (the "Company") and the accounts of its subsidiary companies, including transactions prior to acquisition. All subsidiary companies are effectively wholly owned by the Company as follows:

- (a) Basic Resources International (Bahamas) Limited ("Bahamas") (formerly Parghi Mining Corporation Limited). The Company owns all of the issued and outstanding stock of Bahamas.
- (b) Transmetales Limitada ("Transmetales"). The Company owns 10% and Bahamas owns 90% of the capital of Transmetales.
- (c) Recursos del Norte Limitada ("Recursos"). The Company owns 50% and Bahamas owns 50% of the capital of Recursos.

The accounts of the Company and Bahamas are maintained in U.S. dollars. The accounts of Transmetales and Recursos are maintained in Guatemalan currency ("Quetzal"). The Quetzal has been at par with the U.S. dollar since 1924 and although there are no significant restrictions on foreign exchange transactions, such transactions are required to be registered with the Banco de Guatemala. Excepting certain financial and administrative functions and the Company's investment in Petrotech, Inc., the principal activities of the Company are carried on in the Republic of Guatemala through Transmetales and Recursos. Accordingly, the Company has adopted the practice of stating its consolidated financial statements in U.S. currency.

2. Investment in Petrotech, Inc.

During the year the Company acquired a 50% interest in the outstanding shares of Petrotech, Inc. (a private company incorporated in the State of Delaware, U.S.A.). Petrotech, Inc. is primarily an oil and gas exploration company operating in the mid-west United States and southwestern Ontario and, in addition, provides petroleum engineering and other consulting services.

In consideration of the acquisition of its 50% interest, the Company issued 148,042 common shares and 27,000 Series A preference shares of the Company, which shares were valued by the Directors at \$826,319.

The unaudited financial statements of Petrotech, Inc. at June 30, 1971, showed a book value of \$922,874 and a loss of \$112,651 for the year then ended. The assets of Petrotech, Inc. included 135,661 shares of the Company at a carrying value of \$200,000, which had a market value of \$447,681 at that date. Petrotech, Inc. has not capitalized the value of its successful petroleum leases and its exploration costs were written off as incurred.

3. Deferred Exploration Costs

The principal portion of the exploration costs has been incurred in the Republic of Guatemala where the Com-

pany's subsidiaries are the holders or beneficial holders of mining and petroleum exploration concessions. The status of the subsidiaries' major exploration concessions as of June 30, 1971, is as follows:

Principal Minerals	Concession	Current Status
Copper & nickel	Oxec	Three exploitation concessions have been applied for; two for copper and one for nickel (two of these applications have been made subsequent to June 30, 1971).
Nickel	Marichaj	One application for an exploitation concession is being prepared.
Copper & nickel	Transvaal	Under exploration. First period expires December 15, 1972, renewable for a two year period for up to 50% of the area.
Sulphur	El Tigre	Application has been presented for the discontinuance of this concession.
Petroleum	6 Petroleum Rights (Blocks #30, 53, 57, 62, 63 and 64)	Under exploration. Original term expires March 10, 1976.

All costs incurred by the Company and its subsidiaries to date, including financing, administrative, organizational and promotional expenses have been deferred. The recovery of deferred exploration costs is dependent on the receipt of exploitation concessions, and the future commercial productivity of concessions held by the companies. Under both the Mining Code and the Petroleum Code of Guatemala, exploration concessions, if in good standing, may be converted into exploitation concessions granting the holders the right to develop and extract the minerals and/or petroleum contained in such concessions.

The Company entered into an agreement on March 1, 1971 with Sheridan Geophysics Limited whereby Sheridan agrees to place a 1,000 ton per day mill into production on a portion of the Oxec copper concession in exchange for a substantial portion of the proceeds of that portion of the copper concession plus 200,000 common shares of the Company.

A complete allocation of expenditures by concessions will be made when the commercial productivity of each concession has been determined. Deferred exploration costs are summarized by the Company as follows:

	1971	1970
Assay	\$ 34,769	\$ 26,369
Bad debts	72,166	72,166
Camp construction and operations	428,212	325,489
Consulting services	746,088	490,763
Drilling	773,486	550,994
Exploration machinery and equipment	198,228	150,733
Financial and interest	890,436	281,740
Insurance, bonds, etc.	39,636	29,000
Legal and audit	392,637	292,102
Licenses, fees, taxes, permits	193,360	141,759
Organization expense	11,392	11,392
Promotional expense	158,674	101,286
Rentals (buildings, equipment, machinery)	131,302	97,437
Transportation (machinery, equipment, supplies)	293,778	187,529
Wages and salaries	1,313,098	944,328
Other	342,790	221,948
Direct Company Operations ..	\$6,020,052	\$3,925,035
Investment in and advances to Explom, Limitada	65,609	58,023
Investment in Azufres Verapaz Limitada	1,000	1,000
Contributions to joint venture ..	547,451	582,984
TOTAL	\$6,634,112	\$4,567,042

4. Participation by Others

The Company has entered into two agreements with subsidiaries of Monsanto Company ("Monsanto") which permits Monsanto to participate in the exploration activities on certain of the companies' concessions. The effect of these agreements has been reflected in the Company's consolidated financial statements as follows:

- (a) Under a sulphur agreement dated March 25, 1969, Monsanto advanced sums aggregating \$1,150,000 to the Company for exploration purposes. By the terms of this agreement, 50% of such advances are not recoverable by Monsanto and accordingly \$575,000 of the aforementioned advances was credited to contributed surplus, pending allocation of expenditures as referred to in Note 3. The balance of \$575,000 which was to be recovered by Monsanto out of the Company's initial share of profits from the concession known as Azufres de Guatemala and which was shown as a deferred credit as of June 30, 1970, has been deducted from deferred exploration costs as of June 30, 1971 in view of the subsequent event disclosed in Note 12(c).
- (b) Under an oil agreement dated May 7, 1970, Monsanto may earn a 50% interest in certain of the acreage covered by petroleum concessions by -
 - (i) payment by Monsanto of \$100,000 on signing (credited to contributed surplus, pending allocation of expenditures referred to in Note 3);

- (ii) carrying out a minimum exploration program on the specified acreage at the sole expense of Monsanto; and,

- (iii) proving a petroleum reserve of not less than 50,000,000 barrels of recoverable petroleum or hydrocarbon equivalent, at the sole expense of Monsanto.

5. Bank Loan

At June 30, 1971, \$100,000 (Cdn.) of this loan was secured by the 6% note receivable due February 13, 1972.

6. Notes Payable to Shareholders

During the year, a director of the Company advanced \$600,000 in exchange for a promissory note due May 2, 1971, bearing interest at 10% per annum and a pledge of the Company's holding in shares of Petrotech, Inc. This note is now payable on demand.

7. Advances Repayable from Future Proceeds

These advances are repayable out of 50% of future proceeds received by the companies from certain named concessions owned, or in process of being acquired, at December 13, 1968. The advances have no repayment dates and are not repayable if no proceeds are received from these concessions.

8. Sinking Fund Debentures Due May 4, 1976

Under a Trust Indenture dated May 4, 1971, and a Supplemental Trust Indenture dated June 25, 1971, Bahamas is authorized to issue, on or before November 4, 1971, sinking fund debentures up to an aggregate principal amount of \$5,500,000. As of June 30, 1971, the Company has received cash and commitments aggregating \$3,000,000 on the sale of these debentures.

The debentures mature on May 4, 1976, and may be redeemed at the option of Bahamas prior to that date upon payment of a premium commencing at 5% if redeemed prior to May 3, 1972, and decreasing 1% per annum to May 3, 1976. Interest is payable half-yearly on May 4 and November 4 at the greater rate of 9½% per annum or 2½% above the Eurodollar rate (for six month deposits) at noon five business days preceding the interest payment date.

The debentures are secured by the assignment of the companies' interest in Transmetales and Recursos and are unconditionally guaranteed by the Company. In addition, Bahamas and the Company have covenanted that so long as any debentures remain outstanding, they will set aside as a sinking fund to retire on May 4 of each year, a principal amount of debentures (to the next lowest \$10,000) equal to the sum of the following amounts received in the last previous year ended December 31 -

- (a) 75% of the net cash flow received by the Company or any of its subsidiaries from the exploitation of the Oxec concession; plus

- (b) 25% of the net proceeds received under the agreement dated May 7, 1970, between subsidiaries of Monsanto and subsidiaries of the Company; plus
- (c) 25% of the net proceeds received by the Company or any of its subsidiaries in respect of their nickel properties in the Republic of Guatemala; plus
- (d) 30% of the net proceeds received by the Company or any of its subsidiaries in respect to the issue to the public of any securities of the Company or any of its subsidiaries.

By supplementary agreement, the Company and its subsidiaries have agreed to remit to their financial agent, Finabai Société Financière, S.A., all monies received from concessions and share issues. The financial agent has agreed to distribute these funds at the direction of the Company after providing for the sinking fund requirements set forth above.

In conjunction with the issue of debentures, the Company is authorized to issue, pursuant to an Indenture dated as of May 4, 1971, (providing for the issue of warrants as amended by a Supplemental Warrant Indenture dated June 25, 1971,) share purchase warrants entitling the holders thereof to purchase an aggregate of 2,200,000 common shares as presently constituted. The warrants expire on May 4, 1976, and are exercisable at varying prices from \$2.50 to \$6.00 per share. At the option of the warrant holder, satisfaction of the exercise price may be made either in cash or partially in cash and partially by the delivery of debentures.

9. Capital Stock

The capital stock of the Company authorized, issued, optioned and reserved is summarized as follows:

(a) Authorized –

10,000,000 Common shares without par value
 500,000 Non-cumulative redeemable preference shares with a par value of \$10 (Cdn.) each, issuable in series.

(b) Issued –

(i) Common shares without par value –

	Number of Shares	Amount
From inception to June 30, 1970	3,155,651	\$ 433,530
During the fiscal year ended June 30, 1971 –		
For cash	160,711	626,335
For services rendered in connection with the sale of debentures . . .	100,000	245,000
For conversion of debt . .	435,763	1,696,401
For acquisition of 50% of common shares of Petrotech, Inc.	148,042	576,319
Total	<u>4,000,167</u>	<u>\$3,577,585</u>

(ii) Preference Shares Series A (Redeemable after July 31, 1972, at a price not exceeding \$10.60 (Cdn.) per share and convertible into common shares of the Company until July 31, 1980, at \$3.75 (Cdn.) per common share) –		
For acquisition of 50% preference shares of Petrotech, Inc.	27,000	250,000
		<u>\$3,827,585</u>

(c) Optioned –

- (i) As of June 30, 1971, there were employee incentive stock options outstanding to senior officers of the Company to purchase 125,000 common shares as follows:

50,000 shares under an option expiring May 4, 1975, at \$2.50 (Cdn.) per share;

50,000 shares under an option expiring February 28, 1975, at \$4.00 (Cdn.) per share; and

25,000 shares under an option expiring July 30, 1975, at \$4.00 (Cdn.) per share.

- (ii) The Company has established a Key Employee Stock Purchase Plan to permit certain employees of Transmetales and Recursos to purchase common shares at a price of \$4.00 (Cdn.) per share. Of the 5,000 common shares reserved for issue under the plan, 2,900 shares had been allocated to employees at June 30, 1971, and at that date, the Company had received from these employees \$6,871 (Cdn.) which is included in the financial statements under the heading Accounts Payable and Accrued Liabilities. The amount paid entitles the employees to 1,717 shares at June 30, 1971.

- (iii) The Agent who acted on the public issue of the Company's shares was granted an option in August, 1970, (subsequently extended to August, 1971) to purchase common shares of the Company. No common shares were issued under these options which have now expired.

- (iv) The Company has agreed with persons associated with Petrotech, Inc. to acquire on the exercise of options held by them on common shares of Petrotech, Inc., 50% of such shares up to a maximum of 20,000 shares on the same basis of exchange as the Company's present holding in Petrotech, Inc. If fully exercised, this would require the issue by the Company of 11,690 common shares.

(d) Reserved –

The Company has reserved –

- (1) 2,200,000 common shares in respect of that

number of share purchase warrants authorized pursuant to an indenture dated as of May 4, 1971, providing for the issue of warrants as amended by a Supplemental Warrant Indenture dated June 25, 1971, (see Note 8); and

- (ii) 200,000 common shares for issuance under the agreement with Sheridan Geophysics Limited referred to in Note 3.

10. Contingencies

The Company is contingently liable as follows:

- (a) An oil payment of \$250,000, less applicable royalties, out of 25% of the net proceeds received by the Company or its subsidiaries from the production of petroleum under the agreement referred to in Note 4(b). This oil payment is payable to a broker who is a shareholder of the Company, as a finder's fee under an agreement dated March 23, 1970.
- (b) An oil payment of \$100,000 out of the net proceeds received by the Company or its subsidiaries from the six petroleum concessions referred to in Note 3. This oil payment is payable to a director of the Company, under an agreement dated September 20, 1969.

11. Directors' and Senior Officers' Remuneration

Remuneration to directors and senior officers of the companies during the year ended June 30, 1971, amounted to \$125,950.

12. Events Subsequent to June 30, 1971

- (a) On August 21, 1971, the Company acquired 12,500 common shares of Petrotech, Inc. for \$20,625 to hold a total of 52.5% of the issued and outstanding common shares of Petrotech, Inc.
- (b) On July 21, 1971, the Company entered into a formal

option agreement for one year with International Mineral Engineers, Inc. of Golden, Colorado, to acquire certain nickel concessions in Guatemala to which International Mineral Engineers, Inc. holds beneficial rights. The effective date of this option agreement was June 1, 1971. Under this option agreement, the Company is obligated to –

- (i) issue 10,000 common shares and pay the sum of \$5,000 on July 21, 1971;
- (ii) issue 15,000 common shares and pay the sum of \$10,000 on October 1, 1971; and,
- (iii) issue 20,000 common shares and pay the sum of \$15,000 on February 1, 1972.

On October 6, 1971, the directors established the consideration for the issue of the shares listed in (i) and (ii) above at \$100,000 (Cdn.).

- (c) On September 25, 1971, the concession Azufres de Guatemala, held by Azufres Verapaz Limitada, reverted back to the Government of Guatemala in accordance with the provisions of the Mining Code of the Republic of Guatemala. Azufres Verapaz Limitada did not make application for an exploitation concession on this area. Monsanto cancelled its participation in the sulphur exploration program immediately prior to the date the concession reverted back to the Government. By so doing, Monsanto waived recovery of any portion of the amounts so advanced under the agreement referred to in Note 4(a).

All of the facilities, machinery, equipment, technical information, plans and maps obtained or developed under this exploration program have been transferred to the petroleum exploration program being carried out jointly with Monsanto as referred to in Note 4(b). Since the exploration activities are continuing, no loss has been incurred by the Company as a result of the termination of this exploration program.

BASIC RESOURCES INTERNATIONAL LIMITED GUATEMALAN OPERATIONS



PETROLEUM EXPLORATION CONCESSIONS - 933,000 ACRES



COPPER - OXEC, CHIACACH



NICKEL - CHIIS, CHITCOJ, CHATELA



MINING EXPLORATION CONCESSION - 1 TRANSVAAL (Ni+Cu)

2 RIO NEGRO (Ni) - OPTIONED

3 ANA CECILIA (Ni) - OPTIONED



EXMIBAL EXPLOITATION CONCESSION (Ni) - INTERNATIONAL NICKEL CO.



Mr. René Velez, (at left) Manager of Operations of the Guatemalan subsidiaries, visiting personnel at one of the forward exploration camps.

BASIC RESOURCES INTERNATIONAL LIMITED

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